

Testimony of Dennis M. Echelbarger, CPA – Member, Michigan Association of CPAs

Good morning, Mr. Chairman and members of the committee.

As John indicated, I am a long-time member of the MACPA, including service as the organization's Board Chair. I am the Managing Partner of a mid-size public accounting firm, EHTC, in Grand Rapids.

I offer testimony today on behalf of the Michigan Association of CPAs. The MACPA is a diversified, professional organization of more than 16,000 members in education, government, industry and public accounting – essentially every corner of Michigan's economic marketplace. MACPA members serve essentially all types of Michigan business entities, school districts, municipalities and other governmental agencies. Their role is key in serving the financial markets, both private and public. As the state's premier professional organization for CPAs, MACPA members promote high standards of quality, objectivity, integrity and practicality in the services they provide.

The MACPA strongly endorses every aspect of the reform before you today. The provisions of these bills are necessary steps in ensuring public protection, but also in protecting the integrity of the CPA designation. Similar to Mr. Epstein, I would like to discuss a few of the changes contained within this package and will or course address any questions you may have.

First is a proposal to require enrollment in a "practice monitoring" program (peer review) for licensure of any firm performing attest services: Currently, licensed CPA firms or sole practitioners are required, as a condition of membership in the American Institute of CPAs (AICPA), to participate in a peer review if they perform attestation engagements – defined as audits, reviews, and compilations. Participation in a peer review is not currently required as a condition of MACPA membership, or licensure with the State of Michigan. As proposed, beginning in March of 2007, licensed CPA firms or sole practitioners that perform audits, reviews and compilations relied upon by third parties will be required to participate in a peer review program for license renewal in Michigan.

The United States Congress, as you know, implemented new regulations for publicly-held companies and their CPAs through the Sarbanes-Oxley Act. The proposal I just described shows how the MACPA is serious about ensuring proper regulation of licensed professionals; however, it is also imperative to crack-down on those that aren't licensed.

The second proposal is a recommendation to vigorously enforce unlicensed activity or copycat CPA prevention measures: Currently a \$5,000 / 1-year misdemeanor, unlicensed practice goes essentially un-checked in Michigan. By raising the offense to a felony, punishable by up to five years in prison and/or \$25,000 fine, as well as permitting the State Board to find an individual liable for a \$10,000 administrative fine, the legislation provides the "teeth" to curb this harmful practice. Think of this hypothetical situation: as a business-owner, your financial or lending institution may require your financial statements to be audited by a CPA. If you hire the CPA

down the road and the bank discovers he/she is unlicensed, the bank will hold you liable and the State does not currently have the jurisdiction or resources to enforce the law.

In order to make this all possible – effectively implementing measures to protect the public while ensuring the continued integrity of the CPA designation – the State Board has recommended, and the MACPA and CPA profession statewide has endorsed the final provision I will discuss today, a new fee structure.

The new fee structure, as outlined in the chart on the summary you've been provided, is an integral part of moving the CPA profession into the 21st Century. By earmarking the funds resulting from the increases to an accountancy enforcement fund, the State will have the resources necessary to investigate, enforce, and ultimately prosecute the "bad apples" that prove a thorn in the side of any profession.

The fees associated with the CPA profession in Michigan were set more than 25 years ago, in 1979, and have not been adjusted since. The MACPA has also provided you with a document adjusting the current (or 1979-set) fees to 2005 dollars, based on the Consumer Price Index provided by the US Department of Labor Statistics. For example, the \$35 a CPA currently pays for their initial license application processing in Michigan, and has paid since 1979, is the equivalent of \$93.47 in 1979 – just \$6.53 less than the \$100 per application fee proposed by the legislation before you today.

Allow me to be very clear, the MACPA took advantage of its more than 35 annual conferences, nearly 300 annual seminars, and multiple meetings of our 58 committees and task forces to ensure the membership's support of the increase in fees associated with their professional license. The profession overwhelmingly supports the protection of the both the public and the integrity of the CPA designation, understands there are costs associated with effectively doing so, and fully endorses the proposed fee structure.

The CPA profession has a long tradition of high-quality professional service and the MACPA believes the Board's recommendations strive to create a system whereby this tradition will continue through reasonable regulation. If you have any questions regarding the likely impact of any of these proposals on the profession, or if John or I can offer any further information, we will gladly address your inquiries.

Fee Category	Current Fees (as set in 1979)	Proposed Fees	Current Fees (adjusted to reflect inflation)
Application Processing			
Individual	\$35	\$100	\$93.47
Firm	\$35	\$100	\$93.47
License Fee (per year)			
Individual	\$40 ¹	\$100	\$106.83
Firm	\$35 ²	\$100	\$93.47
Registration Fee (per year)			
Individual	\$15 ³	\$25	\$40.06
Temporary Permit	\$15	\$100	\$40.06
Peer Review Fee			
Firm (performing attest engagements)	N/A	\$100	N/A*

¹ Individual license fee was temporarily increased from \$25 to \$40 by PA 87 of 2003; scheduled to sunset Sept. 30, 2007

² Firm license fee was temporarily increased from \$25 to \$35 by PA 87 of 2003; scheduled to sunset Sept. 30, 2007

³ Individual registration fee was temporarily increased from \$10 to \$25 by PA 87 of 2003; scheduled to sunset Sept. 30, 2007

* Table does not include a calculation for the proposed peer review fee as this would be a new requirement.

If a comparison is made between the current fees and the proposed fees, relative to U.S. inflation rates, the fee increases (in most circumstances) closely reflect the rate of change in the U.S. Dollar since 1979, the last time CPA registration and licensing fees were amended.

Compare, for example, the current fee of \$35 required to process an individual's CPA application (as noted in the fee schedule above) to the proposed fee increase to \$100. \$35 in 1979 would now be worth \$93.47 in 2005. The difference between this value and the proposed fee increase to \$100 is \$6.53.

Utilizing the CPI (Consumer Price Index) provided by the U.S. Bureau of Labor Statistics, the value of the Dollar can be determined as it relates to inflation through the following calculation:

$$\$35 \text{ (1979 fee)} / 72.6 \text{ (CPI for 1979)} = .482$$

$$.482 * 193.89 \text{ (CPI for 2005)} = \$93.74$$

(The CPI for 2005 is estimated by averaging the monthly CPI's for January through August of the same year.)

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